

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01 H-01 INR-07

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OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 OPIC-03 /084 W

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R 101310Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7150

INFO USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: ENRG, UK, TRD

SUBJECT: NORTH SEA OIL PROBLEMS

1. ECON/COM MIN REVIEWED CURRENT NORTH SEA OIL PROBLEMS WITH JACK RAMPTON, PERMANENT SECRETARY, DEPARTMENT OF ENERGY, JAN 9. FOLLOWING IS SUMMARY OF COMMENT.

A) NORTH SEA OIL EXTRACTION: RAMPTON SAID DESPITE SEVERAL RECENT REPORTS TO THE EFFECT THAT SPECIFIC OIL EXPLORATIONS WILL BE DELAYED IN COMING INTO PRODUCTION, HE BELIEVES DEVELOPMENT OF U.K. NORTH SEA OIL FINDS IS ABOUT ON SCHEDULE. IN SAYING THIS, HE EXPLAINED THAT MANY SCHEDULES HAVE SLIPPED A LITTLE BUT NOT MORE THAN IS NORMALLY EXPECTED AND ASSUMED IN ANY FORECASTING OF THIS SORT.

B) PETROLEUM REVENUE TAX: WE INDICATED IMPRESSION THAT LACK OF RESOLUTION OF PETROLEUM REVENUE TAX PROBLEM
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ALONG WITH PARTICIPATION QUESTION IS HOLDING UP DEVELOP-

MENT, BOTH COMPANY DECISIONS AND FINANCING, AND EXPRESSED CONCERN THAT THESE MATTERS, PARTICULARLY PRT, SHOULD BE RESOLVED QUICKLY, ALTHOUGH OF COURSE NOT AT EXPENSE OF SATISFACTORY RESOLUTION. RAMPTON ACKNOWLEDGED THAT PRT PROBLEM IS HOLDING UP DEVELOPMENT AND SAID THAT GOVERNMENT IS ANXIOUS TO RESOLVE MATTER AS RAPIDLY AS POSSIBLE WITHOUT PREJUDICIAL RESULT. HE SAID GOVERNMENT HAS CONTEMPLATED AND IS HAVING SERIOUS DIALOGUE WITH OIL COMPANIES IN ORDER TO UNDERSTAND THEIR PROBLEMS AND WORK OUT SATISFACTORY ARRANGEMENTS WHICH WILL NOT DETER RAPID DEVELOPMENT AND MAXIMUM EARLY PRODUCTION. HE NOTED IN THIS CONTEXT THAT VARYING NATURE OF FIELDS AND VARYING CIRCUMSTANCES OF COMPANIES POSE MAJOR PROBLEMS IN FORMULATING TAX RULES.

C) PARTICIPATION: RAMPTON SAID HE HAD MET WITH SIX COMPANIES EARLIER THIS WEEK, THUS COMPLETING GOVERNMENT'S INITIAL DISCUSSIONS ON PARTICIPATION WITH COMPANIES ENGAGED IN NORTH SEA OIL DEVELOPMENT. HE SAID QUESTION THEY WILL ALL HAVE TO FACE IS WHETHER COOPERATIVE OR CONFRONTATIONAL APPROACH WILL BE MORE SATISFACTORY TO THEM IN THE LONG RUN. WE REMARKED THAT THIS POSES SOMETHING OF A DILEMMA; OUR IMPRESSION IS THAT MOST COMPANIES ARE NOT HAPPY ABOUT PARTICIPATION, AND, IF AGREEMENTS ARE TO BE TRULY VOLUNTARY, THIS WOULD BE THE ANSWER, BUT ULTIMATE POSITIONS OF COMPANIES MIGHT DEPEND ON THEIR APPRAISALS OF THE GOVERNMENT'S ULTIMATE ATTITUDE, I.E., WHETHER THE GOVERNMENT WILL PROCEED TO NATIONALIZE ANYWAY IF THEY DO NOT AGREE. RAMPTON AGREED BUT GAVE NO CLUE AS TO HIS VIEW OF PROBABLE GOVERNMENT POSITION. IN FURTHER DISCUSSION OF PARTICIPATION HE STRESSED AND SAID HE HAS STRESSED TO COMPANIES THAT GOVERNMENT DOES NOT INTEND TO TAKE OVER OPERATIONAL CONTROL OR TO CHANGE EXISTING CHARTERS, MOST OF WHICH REQUIRE 70 PER CENT VOTE FOR SIGNIFICANT DECISIONS. THIS MEANS GOVERNMENT, WITH 50 PER CENT PARTICIPATION, WILL HAVE VETO ON DECISIONS BUT COULD NOT MAKE DECISIONS ALONE. HE ASKED WHETHER WE BELIEVED COMPANIES ARE SERIOUS IN THEIR REPRESENTATIONS OF CONCERN REGARDING CONTROL (AS OPPOSED TO OWNERSHIP AND INCOME) ASPECT OF PROPOSED PARTICIPATION. WE SAID WE THINK COMPANIES ARE QUITE LIMITED OFFICIAL USE

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SERIOUS ABOUT THIS AND SUSPICIOUS OF WHAT GOVERNMENT WILL DO, ESPECIALLY SINCE THEY CANNOT RELY ON CONTINUATION OF ROLES IN GOVERNMENT OF INDIVIDUALS WITH WHOM THEY ARE NOW DEALING. RAMPTON SAID IN THIS CONTEXT THAT HE THINKS IT MIGHT BE USEFUL FOR HIM TO VISIT AND DISCUSS SUBJECT WITH BOARDS OF SOME OF MAJOR U.S. OIL COMPANIES. SEPTTEL THIS SUBJECT FOLLOWS.

D) BURMAH OIL PROBLEM: RAMPTON SAID HE DOES NOT THINK THE DIFFICULTIES OF BURMAH OIL (LONDON 102) ARE TYPICAL EITHER FOR BRITISH BUSINESS GENERALLY OR FOR NORTH SEA OIL COMPANIES OR THAT THIS SHOULD HAVE ANY ADVERSE EFFECT ON FINANCING OTHER COMPANIES ENGAGED IN NORTH SEA OIL EXPLORATION AND DEVELOPMENT. HE SAID PRESS COMMENT, ATTRIBUTED TO GOVERNMENT, THAT PARTICIPATION ASPECT OF GOVERNMENT'S INTERVENTION IN BURMAH IS

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IS QUITE SEPARATE FROM GENERAL PARTICIPATION QUESTION IS CORRECT IN A SENSE -- BURMAH RESCUE OPERATION IS QUITE SEPARATE MATTER FROM NORTH SEA OIL POLICY -- BUT THAT GOVERNMENT NATURALLY TOOK OCCASION, WITH READY ASSENT OF BURMAH, TO IMPLEMENT ITS PARTICIPATION POLICY IN THIS CASE. HE SAID BANK AND GOVERNMENT, WHICH IS WORKING CLOSELY ON PROBLEM WITH BANK, EXPECT TO NOMINATE NEW OPERATIVE HEAD OF BURMAH VERY SHORTLY.

E) PROCUREMENT POLICY: IN RESPONSE TO OUR QUERIES REGARDING STATUS AND INTENT OF POSSIBLE LEGISLATION REQUIRING FULL AND FAIR OPPORTUNITY FOR U.K. INDUSTRY IN OIL COMPANY PROCUREMENT (LONDON 16799 AND 16890) RAMPTON SAID DECISION NOT YET TAKEN BUT IN ANY CASE ABSOLUTELY NO CHANGE IN POLICY IS CONTEMPLATED; NEW PROVISION WOULD BE INTENDED TO ADDRESS PROBLEM OF RELUCTANCE OF SOME COMPANIES TO COMPLY WITH POLICY OF FAIR AND EQUAL OPPORTUNITY WHEN OTHER COMPANIES ARE NOT COMPLYING AND WOULD MAKE COMPLIANCE MANDATORY RATHER LIMITED OFFICIAL USE

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THAN VOLUNTARY. HE SAID SOME COMPANIES, PROBABLY OUT OF HABIT AND WITH NO ADVERSE INTENT, TEND TO GO TO THEIR TRADITIONAL SUPPLIERS OVERSEAS AND EITHER GIVE BRITISH FIRMS WHICH MIGHT MEET REQUIREMENTS EQUALLY WELL OR BETTER NO OPPORTUNITY TO BID OR PROVIDE TENDER INFORMATION TOO LATE FOR BIDS TO BE POSSIBLE. HE REITERATED THAT HMG POLICY IS FULL AND EQUAL OPPORTUNITY AND NO CHANGE IN POLICY IS CONTEMPLATED.

F) GENERAL: RAMPTON REITERATED IN CONTEXT OF ABOVE WHAT WE HAVE HEARD FROM MANY UKG REPRESENTATIVES CONCERNED WITH ENERGY, THAT UKG INTENDS TO GET THE OIL OUT RAPIDLY AND DOES NOT INTEND TO LET THE IMPLEMENTATION OF ANY OF ITS POLICIES INTERFERE WITH THIS OBJECTIVE (AN INTENTION WHICH, REGRETABLELY, WE BELIEVE MORE EASILY SAID THAN CARRIED OUT).

2. RAMPTON SAID HE THINKS THERE MIGHT BE CONSIDERABLE MUTUAL BENEFIT IF ENERGY MINISTER VARLEY COULD BE ENCOURAGED TO VISIT THE U.S. FOR A FEW DAYS AND EXCHANGE VIEWS WITH APPROPRIATE USG PEOPLE CONCERNED WITH ENERGY.

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